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ECONOMIC GROWTH, DEVELOPMENT AND PLANNING IN SOCIALIST COUNTRIES

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RUDOLF PICANIC

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## ECONOMIC GROWTH, DEVELOPMENT AND PLANNING IN SOCIALIST COUNTRIES

Rudolf Bićanić

### A. DEFINITIONS

Economic growth is usually defined as increase of real output, or real income, aggregate or per head, over a long time.

By economic development we mean economic growth by conscious action of decision makers directed from one level to another, higher level of equilibrium (or quasi equilibrium) by autonomous means, introduced from outside.

Economic planning is institutionalized, ex ante quantified, by rational means and conscious action economic development over a definite period of time.

[To explain these definitions in simpler terms, we use the example of a tree. By the growth of a tree we mean simply the lengthening and thickening of its branches, roots, increase of the number of flowers, fruit, etc. If we interfere with this growth by binding or cutting some branches and in such way forcing the growth of others or by grafting the tree from another tree, we develop the tree. We plan the growth of the tree if we know that by giving it a scientifically determined quantity of fertilizers, water and sunshine, etc., it will make the branches grow by so many inches, produce so much more fruit, etc.; and if we really do so and control by measurement whether it has grown as foreseen.]

Most authors make no distinction between economic growth and economic development, using the terms as synonyms. Sometimes the distinction between economic development and planning is blurred. We hope that by differentiating between these and similar terms we may contribute toward the clarification of the matter of economic changes and sharpen some tools for macroeconomic analysis.

[We speak of economic progress as economic growth measured against an in advance determined goal; progress is a teleological concept. Economic programme is a more or less consistent set of economic measures, with no timing and no

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quantification of targets.]

Another more practical consideration is also on our mind. Concentrating attention too much on economic development schemes or in identifying them with economic growth altogether, people sometimes overlook important facts of spontaneous growth. People manage to survive and their economies grow under conditions which the developers would consider rationally impossible. Thus, many good opportunities to assist and develop this spontaneous growth are lost which some experts in development consider as slow, insignificant, statistically not recorded, therefore neutral or obnoxious to progress.

On the other hand, damage is done under rigid institutionalized schemes of planning because of disregard or even inimical stand against spontaneous growth. Therefore only under strong pressure or heavy losses can long overdue changes be made in such systems of planning.

#### I. Economic growth

Most of the authors understand under economic growth increase of physical<sup>1</sup> production or of real income. That is, they measure the growth of the national economy by the increase in the flow of goods and services within the territory of a political nation. This concept of growth works under assumption of homogeneity of the national economic system, assuming also equal rate of growth in all sectors of the economy, and equal rate of growth of the population all

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<sup>1</sup>There are many criticisms of this definition of growth. See particularly a very systematic one of Prof. F. Perroux in his Cahiers de l'Institut de Science Economique Appliquée, Série I, No. 1 (La théorie de Progrès économique).

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over the territory.<sup>2</sup>

The aggregate real output is a more reliable measure of growth than the output per head.

Also, we consider real output per head a better measurement of economic growth than the real income because it includes gross capital investment and the depreciation of capital with the whole problem of disinvestment, to which we attribute so much importance. It seems to us that the assumption of full replacement of used capital is all too easily taken for granted.

As defined above, the economic growth has only one independent variable and is measured by the increase in that variable. The definition is based on the assumption of unidimensional growth with no limits as to its magnitude or time. It assumes theoretically a perpetually ever-increasing growth of the national economy. It is a quantitative measurement with no regard to possible qualitative changes involved. The ends of economic growth are not questioned as growth ex definitione is a process whose ends are not examined. Economic growth is not a teleological process and it is not considered to be the task of the economists to pass judgment on values as to the complex ends of this process. So for the economists it is an end in itself. In this way the concept of economic growth becomes a de-humanized, de-personalized and de-institutionalized approach to unlimited and perpetual growth, washed out of all welfare or social value appreciation.

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<sup>2</sup>The differentiation of growth under different institutional sectors brings the theory of growth more to the proximity of reality of many heterogeneous economies, particularly those in transition from one socio-economic system to another. (Cf. our paper "Some problems of sectors in the social accounting of different economic systems" presented to the third conference of the International Association for Research in Income and Wealth, 1953. (mimeographed))

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This approach should not be underestimated as a statement of fact in a prima facie analysis. It prepares the ground for further and more refined analytical devices. The time over which the growth is measured is neutral chronological time, with no historical meaning or economic or statistical significance attached to it. And yet we speak of young and old nations in economics as well. The problem of increase in population is one of the main problems in all theories of economic changes. On the other hand, the ageing populations in many countries opens other important aspects of gerontological economics. Does not the problem of growth imply also periods of non-growth, stand-still, stagnation, or decline over long term periods?

The term growth has been borrowed from biological science where it implies certain stages of growing from youth to maturity and period in old age. We feel that it should retain some of its original meaning, but we certainly don't push the analogy so far as to accept an organic theory of growth. The theory of economic growth ought to give us some guidance in answering such questions as which nation is growing and which is in decline, what is, economically speaking, a young or an old nation, a developed or underdeveloped or a lesser developed country, etc. What is economic stagnation and what is growth? Plain statement of growth of facts/in arithmetical terms would not satisfy us in this respect. And has not Marx given political economy the ambitious task of discovering the laws of the rise, development, and downfall of societies?

The approach to economic growth from the point of view of stages of maturity in growing brings about a change in quality.

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The approach to economic growth from the point of view of stages of maturity in growing brings about a change in quality. The measurement of economic growth by flow of goods and services gives ground for further consideration. By growth we understand an average increase over a longer period of time. When we say economic growth is constant increase of production, we in fact wish to say that productive apparatus of our society has grown, and that also our stock of our consumption goods has grown. In fact, it seems to us that this implies a concept of growth of the national wealth measured by increase of production. In other terms we measure the increase of stock by the increase of flow. This method, although convenient for practical purposes, opens many problems as the interrelation of increase in stock and in flow is not direct. It operates under assumption of a constant coefficient of propensity to save and a constant capital coefficient. But it supposes also a steady coefficient of capital depreciation and a constant coefficient of use of capital.<sup>3</sup>

It seems that the time has come when a direct approach is possible by defining economic growth as increase of national wealth over longer time periods, and by measuring the growth by increase of the national wealth. One of the reasons for optimism is the increasing number of studies measuring national wealth.<sup>4</sup>

Even the refined method of R. Goldsmith's perpetual inventory has shown that the measurement of capital stock by depreciation flows requires checking by periodical censuses of capital stock.

<sup>4</sup> At the 5th meeting of the International Association for Research in Income and Wealth in 1957, 13 estimates for national wealth were listed, all done lege artis, including countries such as The United States, France, West Germany, Canada, South Africa, Sweden, Argentina, as well as India and Yugoslavia. If more in demand, more attention will be given to such estimates. The Statistical office of the United Nations in this respect could do a great service in helping to work out an appropriate methodology as it has done with the national income.

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## II. Economic Development

The economic development has been defined as economic growth by conscious action of decision makers, directed from one level to another, higher level of equilibrium (or quasi equilibrium) by means of autonomous, exogenous variables.

This definition gives economic development the following characteristics:

It is,

1. Conscious action by definite actors.
2. A process of economic growth.
3. Transition from one to another level of equilibrium as an end of the development.
4. It includes exogenous means of action as autonomous force of change.

Nevertheless, it has to fit the previously discussed process. All economic development is a particular case of economic growth.

1. Regarding the actors of developmental economic growth, there always must be somebody to decide about the development, its ends and means. This

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actor is an identifiable person decision maker. Development is always a deliberate and purposeful action of organized men. Economic development ex definitions is not a spontaneous process. This actor may be an individual or a collective body, private or public. As the incidence of economic development to schemes of action of public bodies, the term economic development being thus a term of economic policy, while economic growth is a term of general economics.

2. A part or the total of the national economy can be developed. In the first case we talk about the developmental and non developmental growth of the economy. This non developmental growth also can be either directed, or spontaneous, or automatic. By spontaneous growth is meant growth that develops from an interior cause, within the economic system itself.<sup>5</sup>

Economic development cannot be spontaneous, nor can it be automatic, as automatic action implies not only growth from an internal cause, (which makes it similar to spontaneous growth), and refuses the action of human will to follow, but also adds to it certain regularity and reversibility which does not suit the definition of spontaneous growth. Also, not all deliberate actions in economics are developmental, e.g. measures of economic policy. What was meant by dirigisme in France or by interventionism in Germany is not development. It is an action to introduce changes in the spontaneous economic growth,

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<sup>5</sup> We don't agree with the idea that development should include only those economic activities which the automatic activity of the price system would not perform. \*J. J. Spengler, "Economic Factors in Economic Development," American Economic Review 1956, Suppl. p. 431.

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but not necessarily to achieve an equilibrium at a higher level. It just set some particular parameters for action to direct economic activity. It did not set qualitative change. Dirigisme may have had a greater degree of consistency than interventionism, and some more clearly expressed goals, but it aimed more to reestablish the threatened old equilibrium than to lift the national economy to a new level. Within these determined ends it had to choose means to maintain these social and economic ends. The freedom of choice was reserved to the means but not to the choice of ends.

3. Economic development, therefore, represents an economic activity which has its clearly distinguishable beginning (an established equilibrium or quasi equilibrium). It also has a definite end, the raising of the national economy to the higher level equilibrium of self-sustained growth. This implies also that the development is finished when this aim is achieved.

The economic development is always linked with some strain on the economy not only on that part of the economy which is being developed under developmental pressure, but also has a definite effect on the spontaneous part.

The distinction between economic development and economic growth raises the question of their mutual interrelations and interactions. We also ought to distinguish the tempo of economic development and of the spontaneous growth and their respective rates of growth. Normally one does expect developmental activity to be introduced to speed up economic growth of a national economy. But not so infrequently the spontaneous, non developmental growth has shown a faster rate of increment than the developmental<sup>one</sup>. This can occur even in most centrally planned and state-controlled economies, as we shall see later.

The distinction between the direction of growth and development is important. They can be a parallel, in the same direction of movement. The development can speed up growth and vice versa. But it can happen also that development and

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spontaneous growth appear concurrently or in opposite directions. Indeed, most of the developmental schemes were set up with the purpose of deviating or detracting economic growth from its previous spontaneous direction of growing. Spontaneous economic growth can strengthen economic development, but can also present an obstacle to it.

Not underestimating the importance of economic development, we don't accept the efforts of all developers as the last instance of wisdom, as it did occur that spontaneous economic growth has proved to be more solid and more effective than some developmental efforts.

Particularly difficult situations occur when two or more developments take place in one and the same national economy, a not so infrequent case as it may appear at the first glance. Their activity may, in this case, bear many similarities with a bi-monopolistic competition.

4. Economic development always takes place under influence of an autonomous force. Our concept of development is based on an autonomous factor introduced into the economic process independently with the purpose of influencing and changing economic growth in a certain determined direction, i.e., toward a definite end. This independent variable is not only autonomous investment but also a great many other developmental factors, economic or extraeconomic. The problem of directness of such factors refers not only to their immediate effects concerning their strength but also the time factor has to be taken into account, particularly when economic <sup>character</sup> of factors is judged. Some factors have immediate effects and others may have their influence protracted or their effect felt over many years.

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and that is  
Economic development presupposes an ex ante fixed end to achieve self-sustained growth with independent effort from within the system capable of maintaining itself without weakening the quality or rate of growth. This means an end to economic development. These autonomous forces which are named instruments of development can be economic in a narrower sense, or political, psychological, institutional, etc. Economic development presupposes an ex ante fixed end to which the whole developmental growth of the economy is directed. It does not necessarily draw the whole path of the development nor does it divide it into strictly distinguishable periods of balanced growth. Neither does it attribute a precise role to particular specific organs of this development.

### III. Economic planning

We defined economic planning as an institutionalized, ex ante quantified, rationalized process of economic development, over a definite period of time.

1. Planning is not only drawing of plans but also the whole operation of the economic process following the pattern of the plan. Planning is action. Regarding the actors we defined planning as institutionalized action. By this we mean an action where specific organs are created for the planning functions. Conscious action includes all people engaged in the planned economic process, though each in a different degree. Their role is attributed to them, their names attached to the planned action, or to use a technical term: the plan is addressed to them.

The role which the actor performs in more simple economic decisions, is extended in planning to all four functions of preparation, decision making, execution and control of the plans, and this mechanism is built in in an

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organized way, so that the role of the actor is divided among four specialized organs: the preparator, the decisor, the executor (operator), and the controller. There is a great variety of methods in which these organs can be constituted and in which they perform their function, such as political, administrative, technical, bureaucratic, technocratic, monocratic, democratic, etc.. Naturally, institutionalization and addressness do not mean that all planning must necessarily be State planning and that by police force.

Planning means conscious action of men for developmental growth, as against spontaneous growth. It does not mean that all economic activity is planned. There is no national economy on this world which could be totally or integrally planned in this sense, and there is <sup>a</sup> lower and an upper limit as to the utility of planning.

The limitations of planning open another question: How free are the planners in their decisions? This involves a great many problems as to the planibility of different economic activities. (e.g. agriculture is less planible than manufacturing industry, production less than financial operations, current production less than investment, etc)

2. Not every decision affecting future action based on forecasting is planning. As seen in our definition, some more requirements are demanded for an economic plan.

A requirement which distinguishes planning essentially from other economic growth is its quantification ex ante. In planning, the ends of economic action are expressed as quantified targets, be it in physical or in value (financial, monetary) terms. Not all products produced, exchanged, or allocated are expressed in such quantities; only the main, strategic, critical ones. Their choice depends on the methods and aims of planning and there is already a great variety of such

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methods. In some economies, as many as ten thousand groups of articles are planned in detail; in other only some hundred critical ones will suffice for planning purposes.

3. Rational method is essential for planning. Any method of forecasting or directing the national economic action in the future, based on the traditional or routine experiences of the past could not be considered planning. This rationality leads to the difficulty of expressing planning targets by mathematical method. It goes so far as to result in some planners abandoning any more refined statistical methods of quantitative analysis, and satisfying themselves with empirical methods of trial and error, "as the system of equations in such complex matter as planning a national economy may be just a system of undetermined equations with too great a number of unknown not giving real solutions."<sup>6</sup>

Nevertheless we believe that the great advance of quantitative analysis in economics has given the planners instruments with which to achieve more exact methods in planning.

4. The essential requisite of the economic plan is its consistency. An economic plan must be consistent, and its quality is measured by this consistency. The way in which means are allocated by planning instruments to achieve planned targets in specific time requires an internally balanced system of equations.

5. Finally, planning is strictly linked to time periods. The continuous economic process is ideally divided into periods of time to which plans refer, and targets are set in accordance with these periods.

<sup>6</sup>Strumilin, Planirovannie v. SSSR, p. 19.

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Growth over time in planning means growth over a definite period of time, not any time. This time is measured by neutral calendar time, chronological units, and is only partially adapted to measurement of economic processes.<sup>8</sup> A plan differs from a developmental scheme in so far that the latter is linked to the historical time necessary for qualitative changes in economics to take place, which may or may not be possible to forecast exactly. In planning the time period is determined with <sup>little direct</sup> / regard to its economic meaning. Thus one developmental scheme can consist of several planning periods. Yearly and trimestrial periods certainly have economic (seasonal) meaning. The Soviet medium period plans (e.g. 5 year plans) are explained as determined in an objective way by Marx' industrial production cycles, and subjectively as not too long to mobilize the workers for an attainable target in the future. To these arguments Brobowski added: enough room for maneuvers for planners; time sufficient to develop a succession of priorities; and to affect structural changes. On the other hand, this period is short enough to make abstraction of revolutionary changes in technique.<sup>7</sup>

#### B. ECONOMIC GROWTH, DEVELOPMENT, AND PLANNING IN SOCIALIST COUNTRIES

In essence, Marx' theory of historical materialism is a general theory of economic growth. Marx has formulated this theory in many places, and in the most condensed form in the well known words from the Contribution to the Critic of Political Economy.<sup>9</sup>

<sup>7</sup>Bobrowski, Formation du systeme sovietique de planification, p. 37.

<sup>8</sup>See the very interesting reflections of P. Péroux on this respect in Cahiers de l'Institut de Science, Economique Appliquée, La théorie du progrès économique, I, Série I, No. 1.

<sup>9</sup>"In the social production of the means of life human beings enter into definite and necessary relations which are independent of their will, production relations which correspond to a definite stage of the development of their productive forces. . . At a certain stage of their development, the material productive forces of society come into conflict with the existing production

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Developing this general concept of historical materialism for the capitalist socio-economic formation, the theory of creation of surplus value, and of concentration of capital became his basic law of capitalist society.<sup>10</sup> Marx' theory has all the characteristics of a theory of economic growth. It refers to the increase of productive forces over a long time. The actors in this process of growth are social classes who are at the same time the product of the growth of the production forces. In fact, Marx' theory is more than a theory of economic growth. It is a theory of growth of total societies, based on economic growth. Marx' formula of growth could be put in the following way:

$$r = f(p)$$

Production relations (r) are a function of growth of production forces, (p) the end of this process of growth is also a dialectical outcome of its economic growth.<sup>TP</sup> Lenin started from Marx' basic principle that socialist production relations can be successfully established only when the production forces have grown to an adequately high level. But his idea was that, when the State is taken over by the proletariat, they can use the state power to develop the productive forces much faster than the capitalist class and thus create conditions which

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relationships, or, what is but a legal expression for the same thing, with the property relationships within which they have hitherto moved. From forms of development of the productive forces these relationships turn into their fetters. A period of social revolutions then begins. With the change in the economic foundations, the whole gigantic superstructure is more or less rapidly transformed. In considering such transformations we must always distinguish between the material changes in the economic conditions of production, changes which can be determined with the precision of natural science, and the legal, political, religious, aesthetic or philosophical, in short, ideological forms, in which human beings become conscious of this conflict and fight it out to an issue."

<sup>10</sup>"Self earned private property is supplemented by capitalist private property. . . What has now to be exploited is not the capitalist who works many labourers. This expropriation is brought about by the operation of the immanent laws of capitalist production, by the centralisation of capital . . . Capitalist monopoly production becomes a fetter upon the method of production which has flourished with it and under it. The centralisation of the means of production and the socialisation of

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can serve as the basis for the whole superstructure of the socialist society. After the successful revolution in 1917, Lenin repeatedly warned that the advanced political structure must imperatively develop a corresponding economic basis, by industrialising the country, thus creating the proletariat. If this not be done, the whole political superstructure will crumble down.<sup>11</sup>

So Lenin turned the theory of growth into a theory of development. The formerly dependent variable of growth, the production relations were turned into an independent variable of development, as the state power became the autonomous actor in development and the function of investment (economic growth) was made the main task of the State. On the other hand, the Marx 'independent variable (the growth of the production forces) was turned into a variable, dependent of the state action.

$$p = f(r)$$

This developmental activity had a beginning in the quasi equilibrium of the slow growth of the Russian economy before the revolution. The end of this development was not so easy to determine as it was difficult for anyone to say when the changes in the production forces would be sufficiently developed to maintain the socialist superstructure.

As there were no cases from which a generalization could be drawn and an absolute standard established, relative measurement was used, i.e., to reach and overstrip the most advanced capitalist countries, not only in absolute output but also in output per head.

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labour reach the point where they prove incompatible with their capitalist husk." Capital, Vol. 1, as quoted by Burnes, Handbook of Marxism, p. 554.

<sup>11</sup> The result of the revolution has been that the political system of Russia has in a few months caught up with that of the advanced countries. But that is not enough. It puts the alternative with ruthless severity: either perish or overtake and outstrip the advanced countries economically as well.<sup>4</sup> Lenin, Collected Works, Vol. XXI, book I, p. 216, as quoted by Stalin, Leninism, pp. 242-243.

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Stalin followed Lenin's theory of economic development and forged for it the tools of economic planning.<sup>12</sup>

He put the state power almost to the pedestal of economic law, making it the only independent variable of economic growth. In this time even the existence of economic laws was questioned which lead to voluntaristic subjective definitions of economic development such as: "New economic laws, economic laws of socialist development cannot operate automatically, they materialize by means of the planning activity of the State and of the working population, (all) lead by the Communist Party."<sup>13</sup>

In 1936 Stalin proclaimed with the Soviet new constitution that socialism has been achieved in the USSR, but he continued to press for over-reaching and overstripping the most advanced capitalist countries by economic relations, i.e., by volume of production per head, which continued to be the aim of socialist economic development. The main method to achieve it was economic planning which took place in the era of 5-year plans.

In this planning, the institutionalization was very strongly emphasized by introduction of an integral centralized monocratic method of state and business administration (edinonachalie). The ex ante quantification was interpreted as

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<sup>12</sup>The struggle in the Soviet Union in the beginning of the planning era over what character the plans should have, between the geneticists(Bazarov, Groman) and the teleologists(Strumilin, etc.) was to a great extent that the first wanted to build the economic plan on the basis of objective economic growth with as little government decisions as possible (in built stable proportions derived from historical observation of economic laws: and assumption of a dynamic equilibrium, etc.) The teleological school wanted to value the objectives of the plan on their own merits outside the economic system, and envisaged the role of the planners as that of finding the right means and roads toward these ends. In other words, they based their concept of economic planning on a development theory.

<sup>13</sup>Bolshaya Sovjetskaya Enciklopedia, 193x, book SSSR, p. 769.

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following only directives and spontaneous economic growth was not to be recognized. The quantum targets became government orders and not just forecast magnitudes.<sup>14</sup> The total rational method of planning was meant to be a strictly scientific process and its very empirical application in practice, with hardly any theoretical refinement, was not mentioned at all.

When, after the second world war, the new states of peoples democracies with a theory of socialist economic growth as the basis for economic development and for long term planning, such theory was founded under the name of the basic law of socialism. This law was stated by Stalin in the following way: "securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of highest technique."<sup>15, 16</sup>

We shall examine this law from the point of view of economic growth under three aspects:

1. Planned versus spontaneous growth,
2. The autonomous variable (authoritarian normative planning),
3. The rational (scientific) character of planned proportions.

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<sup>14</sup>"Our plan is not a plan prognosis, not plan of tentative forecasts, but a plan directive, compulsory for all leading organs and which direct the direction of our economic development in the future within the framework of the whole country."

Polit. report to the XV congress of the BKPb. (1933), p. 69.

<sup>15</sup>Stalin, Economic problems of socialism, in the USSR, Foreign Languages Publishing House, Moscow, 1952, p. 45.

<sup>16</sup>This law was criticised directly and indirectly by many authors in socialist countries as being a postulate and not an economic law, cf. Bobrowski, Formation du systeme sovietique de planification, p. 13; Lipinski, Congress of Polish Economists in 1956;

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1. Planned development versus spontaneous growth. The first point regarding this theory of economic growth refers to the problem of planned development versus spontaneous growth. Is spontaneous growth made possible in socialist planning?

Stalin's basic law of socialism has first a negative developmental decision: Continuous expansion of socialist production excludes all production which is not socialist, i.e., which is outside the socialist sector. Thus this law does not operate under assumption of maximization of total production, but only of socialist production, i.e., in the socialist sector established by law. By constitutional laws of all socialist countries and by other laws on nationalization, land reforms, etc., the growth of the capitalist forms is restrained or prohibited and a small private sector tolerated temporarily. However, all spontaneous growth is also considered as non socialist and prohibited in the socialist sector by constant policy to remove disproportional growth; separating institutionally the investment function from the current running of the enterprises with very limited possibilities of autofinancements and automatic growth; by imposing multitudes of disciplines, etc. Spontaneous growth is considered thus obnoxious, and is prohibited as damaging for socialist economic growth. It is considered led by a reactionary force, rotten liberalism turning against the scientific guidance and the political leadership of the socialist State.

At the same time the theory was developed that "the socialist forms of economy cannot emerge and develop spontaneously, of their own accord. They arise and develop as the result of the planned activity of the proletarian state and the creative activity of the working masses."<sup>17</sup> Here the exogenous character of the activity of the state is clearly stated.

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<sup>17</sup>Political economy, A Textbook, 1957. p. 419.

<sup>18</sup>In the late thirties this was stated even more emphatically in the Soviet encyclopedia: "New economic laws, economic laws of socialist development cannot operate spontaneously; they materialize through the means of the planning activity

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This attitude begs the question: What is socialist production? Does socialist production include only that which in the socialist sector is defined by administrative or legal measures? Is socialist production a term of objective meaning or should it be left to subjective and changeable decisions of authorities to determine it? Does socialist production include only those hitherto known forms? When can, and how, and by whose decision new productive forces become a part of the socialist sector? Why is it that there can be no spontaneous growth of socialist forms (even after the revolution); and is socialism limited only to constant support and approval of the coercive power of the State?

Thus socialist economic growth anticipates an actor who will do the function of securing it and this is the socialist or proletarian State and the working population both lead by the communist party.

There was a time, when even the existence of objective economic laws was questioned in the USSR, and the expressed will of the Communist party (lead by Stalin) was considered as the economic laws, so, according to the theory, the merger of the political decisions and the economic laws was complete.

2. The State Power. The institutionalization of growth was built around the introduction of an autonomous factor: the State power, in the form of a whole system of planning organs, and of an establishment of administrative planning patterns. The method of authoritarian coercitive planning prevailed: planning by orders of higher political authorities to lower ones, without mechanism to questioning the wisdom of their planning decisions, and with merging of all public and business administration into one system of transmission of such decisions from the top to the bottom operational unit. No plans were left to be decided by those directly carrying them out. The direct producers had not even a limited autonomy of planning. The main incentives to those carrying out

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of the Soviet state and the working population lead by the Communist party."

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the plans were by far administrative incentives, predominantly negative ones, based on fear, and for that purpose a whole set of "disciplines" was introduced.<sup>19</sup>

a) They transformed the economic process as if it were a procedural matter of administrative law. The authoritarian decision making assumed that the system of stochastic equations was changed into a deterministic system of equations with no random elements in it.

b) The whole process was strictly centralized, as if the whole enormous State and its economy was "one enterprise and one office, uniting the will of hundreds of millions of people." Thus the macroeconomic decisions were transformed almost into microeconomic decisions and the macroeconomic planning into huge microeconomic planning with one single chief on the top.

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<sup>19</sup>There are quite a number of them: socialist discipline, state discipline, planning discipline, production discipline, technological discipline, labour discipline, including also the financial discipline, and last but not least, the party discipline controlling all controllers, has to be added.

See the definition of most of these disciplines in Vucinich, Soviet Economic Institutions, Stanford University Press, p. 42.

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3. The Scientific Method. It was assumed that centralized planning was the most rational planning securing the maximum possible growth. The advantages of this system were great so far as it could have the benefit of choice over a wide area of activity, and could give its chosen objectives a high degree of priority at the expense of many other objectives. It did not take into account the interests and the autonomy of the operators carrying out the plans, and a centralized state budget enabled the planners to carry out plans at all costs, and all merged into one huge profit and loss account. Although the struggle against technically unlimited centralization of productive forces started already in the early 1930's (the struggle against gigantomania) the limitations of centralized management were not taken into account.

The second assumption was that of unlimited advantage of planning and of no limitations to planning decisions. Gradually the whole economic activity had to be embraced into one totally integrated plan and if there were some parts of the economy which were not yet fully enclosed, the reason for it was

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technical impossibility.

The consequence of this axiom was the planning of the maximums and complete disregard for any concept of planning the optimums.<sup>20</sup> The economists calculating the costs were forced to give the first place to the politicians and the technologists.

Authoritarian, administrative and centralized planning implied the evasion of the problem of costs. There was no use to pretend that only general social cost counted and that the individual costs of the enterprises, the "affair of small shopkeepers' mentality," (Stalin) do not count. So the losses were hidden in the lump sums of centralized averages. The individual real costs of enterprises are not an accepted measurement of social utility and the measurement of such complicated and complex magnitude as social costs is not calculated at all, so nothing remained to give a measurement of the socially necessary work attributed to the individual products.<sup>21</sup>

The authoritarian and coercitive character of the plan does not mean that the plan is not changeable. On the contrary, there was no limit to the changes required by the decision making authorities which the planners had to incorporate into the overall revised plan in order to "eliminate disproportions". Thus the planning discipline so strictly imposed, applied only to those carrying out the plans. Constant revisions of the plans by introducing even higher priorities and super priorities lead to uncertainty in lower priority groups, and finally

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<sup>20</sup> Only in 1957 Strumilin as an exception introduced the concept of optimum in his definition of the task of the national economic plan which he defined as "the optimal utilisation with crises, and the expansion of the reproduction of socialist relations and productive forces of the country, at the possibly fastest rate and with the goal to achieve maximum satisfaction of the need (of the population) with the minimum of costs."

Strumilin, Planirovannia, p. 18.

<sup>21</sup> Stalin in Economic Problems of Socialism maintained that such calculation of individual costs is important. But Soviet economists still complain that there are no methods in the USSR by which to assess the quantitative effects of the law of value.

Breev, Obshchie voprosy teorii narodnohozhajstvenogo planirovannia. Moscow, 1957.

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threatened to destroy the consistency and the unity of the plan.

This practice introduced into the plan an element of strained belligerent spirit which had certain temporary advantages as a mobilizing factor but in the long run damaged the methodical work of achieving planned growth.

The Soviet Textbook on political economy said that planning is done on a strictly scientific basis. But Strumilin emphasizing the importance to solve many practical problems which in theory look insoluble to the scholastic theorists, says that the demand for exactness should not be exaggerated.<sup>22</sup>

The driving force behind these changes was the political decisions. We cannot do better to describe their effect on planning than by quoting Polish economist, specialist on planning:<sup>23</sup>

"Truly speaking, in such setup the object of realization of the plan is not the written official plan, but an unwritten plan implicitly contained in the choice of basic decisions. . . . One of the most fundamental

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<sup>22</sup>He has doubts as to the mathematical approach to problems of planning and ridicules the Harvard economists who want to forecast future spontaneous growth from the past. The task of the planner is not to forecast future tasks, but to solve problems of economic policy by active overcoming of the obstacles to the targets, following the directives the programme and the practical activity of the party and the laws of economic development. Mathematical solutions were impossible as there were so many complex factors, some not yet studied and not quantified, and others very controversial and substitutable. (Strumilin, Planirovanie. p. 19-21.)

In his more elaborate writings this doyen of Soviet planning theorists put the question why the theoretical basis of Soviet planning was so underdeveloped, and why Marx' theory of reproduction was not used as a basis for Soviet economic planning. Strumilin gives some very interesting answers (S.G. Strumilin, balans narodnogo khozyaystva kak instrumenti socialisticheskogo planirovaniya, Voprosi ekonomiki, 1954, No. 11. p. 23 ff. S. G. Strumilin, K sheme balans narodnogo khozyaystva SSSR (ANSSSR, Uchenie zapiski po statistike, Moscow, 1955)

While Braginski called the plan the first approximation to the improvement of the plan in its execution, another Soviet economist complained that there is no real scientific method of planning in the USSR.

<sup>23</sup>C. Bobrowski, Formation du systeme Sovietic de planification, p. 91.

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characteristics of Soviet system of planning is not to treat the official plan as a supreme law setting up intransgressible principles (except for explicit modifications) of the allocation of factors of production and of distribution of the national income, but as an approximation susceptible to changes at any moment if the non written plan requires so. This is particularly confusing to those who wish the planned economy to be an organized system, free from oscillations. . . Finally as the non written plan is reduced to a certain number of macroeconomic choices, its supremacy means a defeat of all attempts at giving some importance to economic calculations."

4. The basic law of socialism. The economic decisions, directly concerning economic growth, in the basic law of socialism are those which refer to the maximum satisfaction of the rising needs of the society through the constant expansion of production. To achieve this is one of the main tasks of the planners, whose choice is limited by the requirements of this basic law. In other words their activity is preponderantly negative: to eliminate disproportions in such economic growth.<sup>24</sup>

The analysis of this basic law of socialism brings forward the following points:<sup>25</sup>

- 1) The real consumable income of the population has to be increased.

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<sup>24</sup>To avoid any doubt which maximum is dependent on which, the Textbook on Political Economy added: "The basic economic law of socialism is inseparably linked with the law of the priority development of industries producing means of production, that is to say their relatively more rapid development compared with that of industries producing consumer goods."

<sup>25</sup>See the analysis of this definition in the Economic Survey of Europe for 1955, p. 198, from which many points were taken.

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2) Potential productive forces aiming at the increase of potential wages have to be provided for in future investments. 3) The proportion of saving to consumption is not decided. Only one guiding principle has been laid down, that of the dependence of the satisfaction of needs on the expansion of production. 4) No exchange rate was set as to the potential consumption level now and the potential consumption increase in the near future. No rate of increase of consumption was mentioned, nor even a limit of such rate given. 5) The question of maximum or optimum growth is decided in favor of the maximum which meant that continuous use had to be made of marginal production units. 6) No mention of costs of growth is made, and no evaluations of the ratio of maximum growth to maximum consumption is set, thus the problem of the burden, on present and future generations building socialism, remained unsettled. 7) The time dimension usually a constituent part of such statements ("the fastest possible") is entirely missing, giving the impression that the urgency of growth was not so great as before.

5. Economic proportions. A particular law of planned (proportional) development is the second law concerning the Soviet developmental theory. It is considered to be the "regulator of socialist industry," and the distributor of means of production and labour power among the various branches of the socialist economy. The assumption for the functioning of this law is the planned conduct of the national economy; a proportional development of all branches of socialist economy; and the fullest and most effective use of the country's material, labour and financial resources. It is a law without "a purpose," dealing with methodology, and its "tasks" are determined by the basic law of socialism. This law says that

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correct proportions must be preserved, fixed, and rational location of resources established.

The actors in this law are the Communist Party and the Socialist State, who by their decisions set what have to be considered the right proportions. In practice the requirements of this law are not fully met and then disproportions appear, interrupting the normal economic process.<sup>26</sup>

Thus economic planning is dependent on this law of balanced growth (for that is what this law is).

The main task of the planners is reduced to the task of regulation of production and distribution so as to eliminate disproportions hampering this law in its operation.<sup>27</sup>

This again is a negative developmental activity: (a) the right proportions are fixed in advance by the decision making authorities, (b) they are constantly disturbed by a process of spontaneous economic growth, (c) they have constantly to be returned to the prescribed proportions by the State power.

This, combined with what was said before (that the socialist economy cannot grow by itself) leads to the conclusion that we have here to deal with an economy

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<sup>26</sup>Stalin, Economic Problems of Socialism, p. 46.

<sup>27</sup>It is interesting to enumerate what are considered to be the main proportions in planning practice. 1. Proportion between production, distribution and the consumption of material goods (in physical terms); interregional and intraregional distributions. 2. The grand proportions between production and general consumption; manufacturing industry and agriculture; production of the means of production and the means of consumption; between production and transport; between building industries and financial investments. 3. The national income proportions (consumption and accumulation), the personal, general and government consumption; the balance of labor power; the foreign trade between socialist block countries.

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in labile equilibrium. According to this theory socialist economic process is neither an automatic nor a self-sustained process. It is a constant upswing movement, which operates under a persistent strain and has constantly to be propped by the action of the extraeconomic State power.

6. The system of priorities. One still does not see where the essence of this law is, nor what the "right" proportions may be from an objective point of view. Some economists think that the right proportions are established by technological coefficients, other stick to economic ratios, etc.

This law has to enforce and justify the great strain imposed on the economy by a range of priorities in economic plans, and the task of the planning organs is to not let these priorities be reversed. These priorities have, in the course of time, grown from tendencies in the policy to sacred principles of an ideology. They are:

1) Fixed priorities of investment: economic growth depends on the growth of industry, which depends on the growth of heavy industry, which depends on the growth of machine building industry. Agriculture comes behind industry, and consumption behind production.

This priority of investment over consumption makes the consumption a residual magnitude, dependent on the rise of compulsory saving.

2) Fixed priorities in production relations: the socialist sector comes before the non-socialist sector, and in the socialist sector the state property forms before the cooperative forms. The growth of non-socialist sector is considered obnoxious, though it is sometimes tolerated. The growth of capitalistic production relations is prohibited.

3) Fixed priorities on different levels of centralization: The Central

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government (Federal agencies) has a first and foremost established priority, the Republics come next, and the local interests are the last to be considered.

4) The decisions of the Communist party organs have priority over <sup>those of</sup> State organs, which have priority over any decisions of the working collectives.

### C. THE EXPERIENCE

#### 1. Planned Development and Actual Growth

The system of administrative, authoritarian, centralized planning has not succeeded in stopping spontaneous growth despite all measures of coercion. The planned economies of socialist countries grew at a very high rate of growth, but not always as directed by plan.<sup>28</sup>

All of this non planned growth cannot be considered as spontaneous nor as obnoxious to the socialist sector.

The phenomena of such non planned growth are varied and their existence in only occasionally registered through statistics.

1) Spontaneous growth: Not all disproportions in planned growth are derived through interference of the superior authorities. Most of these were

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<sup>28</sup>For the critical approach to Soviet developmental planning compare among more recent publications: Braginski-Koval, Organizatsia Planirovaniia Narodnogo Hozyaystva SSSR, Moscow, 1954, p. 77-92; Breev, M. B., Obshchie Voprosy Teorii Narodnohozyaystvennogo Planirovaniia, Moscow, 1957, p. 96-104; Gladkov, I. A., Ot Plana Goelro k Planu Shestoy Pyatiletki, Moscow, 1956, p. 339-349; C. Bobrowski, Formation du système Soviétique de Planification, Paris, passim; dyskusya o Polskim Modelu Gospodarozym, Warszawa 1957 (particularly the articles of E. Lipinski, Fabierkiewicz, S. J. Rucowski, M. Mieszcankowski, C. Bobrowski, J. Pajestka, and S. Jendrichowski); Jiri Ruznicek, Organizace Planirovani v CSR Prague 1956.

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incorporated into the plan, or at least the plans adjusted to them. Many other disproportions which remained outside the plans, were the result of unequal fulfillment of the plans, of overfulfillments creating excessive expenditures on one side, and shortages on the other.

2) Growth from fear of planning discipline: It is an established practice of socialist enterprises to hide accumulated reserves of raw materials, fuel or spare parts, and even machines, from planning authorities, and keep them for their use according to their liking, for production outside the plan or for assuring current production in an easier way. Much of this production is not reported as planned production. Reserves in labour and credits and finished goods are treated in a similar way.

3) The very extended practice of "two plans," one for "those above," and another for internal use in the factory is a more rationalized practice of extra-planned growth.

The extent of such practices is demonstrated by the continuous and constant struggle of the authorities to keep planning discipline and protect state property from "spontaneous activities."

Often such activity was done in good faith to "improve upon the judgment of the planners" and with the intention of having the extraplanned growth legalized later. Some of these practices were even tolerated and supported by higher, if not by highest, authorities. For instance the system of planning below the actual capacity to produce in order to be able to achieve the planning target more easily, and to obtain the rewards for the overfulfillment of the plan, or to engage in investments which the central planning authority would not permit, was an established practice from ministers of central governments down to the managers of factories and the workers in their working places. The general reaction of the

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planning authorities to this practice was to impose a linear increase on all plans, which didn't improve the situation.

There are no estimates of such unauthorized spontaneous growth.<sup>29</sup>

A particularly widespread practice was that of overestimating the approved planned investments (to "cottonwool" them) and to use the funds for other non planned investment purposes.

4) Centralized planning enabled the central ministries to develop departmental isolationism and autarcy which made it possible for the minister to run the whole production process according to his "own plan" with no regard to additional costs.<sup>30</sup>

5) Localism/<sup>and nationalism</sup> allocation of means for reasons of local/<sup>and national</sup> preferences, loyalty to local interests above central plans, was a logical consequence of centralized planning, with no autonomous plans to care for legitimate local interests. This enabled the local economy to grow at a faster rate than central planning would have permitted.

6) All this non-planned growth and other expenses found their place finally in the account of raw material, fuel and energy which amounted to more than 70 per cent of the cost of production.<sup>31</sup> (In Yugoslavia the material costs amounted to 53 per cent of the total value of output.)<sup>32</sup>

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<sup>29</sup> Some figures showing the amount of circulating capital invested as fixed capital for building and buying of machines in Yugoslavia turned into milliards of dinars.

<sup>30</sup> See many instances of such plain departmental abuses in Khrushchew's speech of April 8, 1957.

<sup>31</sup> Gladkov, op cit., p. 294.

<sup>32</sup> Statisticki Godisnyak FNRS 1957, p. 130.

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7) In agriculture the most striking appearance of spontaneous growth is the increase of the marketable production on the kolkhoznik's plots. These plots were left to the peasant families to help to feed them, but the peasants used them to increase their production and enlarge the sales, at a rate higher than the rate of growth of planned agriculture. This was finally legalized by the authorities and taxed accordingly. A more than proportional part of the total sales of agricultural produce came from these sources.

8) The difference between the biological harvest and the harvest in barn of the kolkhozes and state farms amounted on an average to 20 per cent. This form of spontaneous growth of peasant income was a counterpart to "socialist primitive accumulation" and the unequivalent exchange practice.

9) Workers' allotments, 20 million of them covering 1.6 million hectares of land, are another example of unplanned growth. Such plots developed into very intensive agriculture with the greatest density of cattle per ha of all forms of property.

10) The workers' off factory work on their own account or for private handicrafts, on repair jobs, cottage industry, etc., increased their incomes faster than normal wages in factories.

11) The great number of prescriptions, rules and laws put every enterprise into a position of insecurity. The choice was between the anvil and the hammer: to break the laws and rules or <sup>not</sup> to fulfill the plan. Under such pressure many skilled men used their skill to pull wires, to serve as intermediaries, and develop a widespread system of contacts based on family ties, protection, friendship, and personal influence to achieve what the plan could not secure.<sup>33</sup>

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<sup>33</sup> "The power of such contacts may be judged by the slogan "Zis (connections and contacts) is stronger than Stalin." Berliner (Factory and Manager in USSR, p. 183.) gives many instances of similar practices.

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12) Finally the lack and confusion of moral standards created by unlimited use of coercion lead to black and grey market activities, in raw materials, spare parts, imported goods, foreign currency and even in labour and services practices.

As a corrolary to it, "white collar crimes," bribery, forgery, theft and other "economic crimes" developed to such an extent that they represented a problem, not only of legal but of economic policy.

13) The discrepancy between planned development and real growth grew greater and greater and increased the tension between the production forces and production relations. One could almost speak of two economies, the normative one, and the real (empirical) one.<sup>34</sup>

## 2. Obstacles to development

The other of the most important facts was that centralized planning began to cause serious obstacles to further development of production forces.

1) Its administrative costs were increasing, and the share of labour used in non-productive occupations was out of proportion, both financial means and labour force were detracted from productive activity.

2) In several countries forcible collectivisation lead agriculture into such crises of underproduction, even below subsistence level, that the policy had to be reversed and the kolkhozes allowed to disband. (Yugoslavia, Poland, partly Hungary.)

3) The system of centralised authoritarian planning prevented agricultural and industrial production from growing according to their objective possibilities.

4) There was an increase of labour force and at the same time delay in

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<sup>34</sup>This counterpart to the legal economy made a Polish economist call it an "underground economic system," existing under the husk of the normative authoritarian economy.

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increase of productivity of labour which implied a great deal of unproductive growth.

5) No proper method for assessment of the productivity of investment was found and many losses were due to improper location, overhead costs and oversized or failed investments allowing even parasitic growth of costly, uneconomic and unnecessary building of factories for reasons of centralistic ignorance, local prestige, departmental jealousies, and personal ambitions of influential leaders, all of which could be maintained only by subsidies from the centralized state funds. The best proof that the practice of authoritarian centralized planning had a retarding effect on economic growth is the increase of the rates of growth when some of these obstacles were removed.

### 3. Changes in the system of planning.

Tendencies of major changes have taken place in economic planning of socialist countries. They can be listed as follows:

a) Administrative incentives are being replaced by economic incentives (higher wages for workers, high prices for agricultural goods, etc.)

b) Planning is being decentralized, i.e., important decisions are no longer all made in one place but in many centers. This decentralization is more of a spation than of a functional character.

c) The administrative role of the State organs is being reduced or replaced by a more or less autonomous organization of socialist enterprises.

d) The enterprises are becoming more independent, their autofinancement strengthened and their automatic growth made possible.

e) In some countries democratization of planning has taken the form of workers management.

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f) The rigid system of priorities in economic development has been discontinued, development of consumer goods industries strengthened, and agriculture given a somewhat higher priority than before.

g) The stiff priority of state forms over other (cooperative, private) forms of organization has given way to a more flexible approach, e.g., transfer of agricultural machines from state ownership to cooperative ownership; or the disbanding of collective cooperatives, and return to peasant family holdings.

h) The spontaneous growth has been sometimes liberalized and treated as a legitimate form of economic growth.

For the first time in the history of planning these changes were not explained as having the purpose of changing the production relations but as being the consequence of the growth of the production forces.

This opens the field to two possible explanations: 1) Were these changes due to qualitative changes in the national economies, meaning that a sharp decline in the usefulness of the state power has taken place, i.e., the economic development based on this autonomous variable has approached its end? Or 2) Is this change due to the economic growth which makes the changes inevitable?

1) The first trend of thought is best formulated by O. Lange.<sup>35</sup> His explanation is that the development of socialist countries must necessarily pass through two historical stages.

The types of planning are not introduced once and forever, and are subject to incessant readaptation to newly created historical situations.

There are two methods of guiding the economy in planned development. One is by extraeconomic, administrative guidance and management, and also by non economic incentives (patriotism, class consciousness, etc.) The

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<sup>35</sup>Notes from his public lecture in Zagreb in 1957.

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other is by economic incentives, which ~~UNCLASSIFIED~~ people automatically react in the way desired by the planner.

Socialist revolution was an extraeconomic force guiding the economy by means of "war communism" and organizing rapid development of under-developed countries, by breaking the vicious circle of backwardness. But such guidance has its limitations. Political and moral appeal work only under exceptional circumstances. Administrative allocation of resources has shown to be wasteful and inflexible. A bureaucratic group has developed conservatism based on vested interests in the method of state management.

The need arose to introduce economic incentives which were made possible and necessary because of economic development. Such incentives do not mean elemental development; it is a planned and guided development by the conscious will of the organized society. The social ownership gives the society the degree of freedom to establish purposefully incentives to as to achieve desired results.

[There is a brilliant analogy used by Lange to compare different methods of planning. He compared the capitalist economy to a balloon moved by wind whose direction cannot be controlled by the pilot. The administrative planning system was one of a simple airplane steered by an individual pilot in the direction he desired, but was still very much subject to the elemental forces and personal abilities of the pilot. The new system of planning is meant to be like an airplane with automatic control in which the direction once set by the pilot leads the plane automatically to his target. This method of planning corresponds to the age of automation.]

To this theory the following can be objected:

1. The change of planning methods took place in socialist countries of

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different levels of economic development, sometimes later in those more advanced than in those less developed. The pace of these changes is very different. Therefore, the historically objective character of these changes has to be proved.

2. The inefficiency of centralized normative authoritarian planning methods has manifest itself in more advanced as well as in least technically developed economic activities. A situation developed in which the rate of growth of agriculture, using most primitive means on very limited kolkhoznik's plots and peasant family holdings, happened to be greater than on collective and state farm fields, armed with most advanced machines.

3. The changes were not planned but were forced by events, therefore they had a more elemental character than that of planned conscious change.

2) The other explanation is based on the analysis of the assumptions under which the present Soviet system operated,

There was an assumption of an unlimited demand for capital goods, in a definite order of priorities.

b) assumption of an unlimited demand of consumer goods, in a population purposely kept on an underconsumption level.

c) the assumption of unlimited efficiency of administrative incentives.

d) the assumption of an unlimited role of state power in economic planning.

These assumptions may no longer be valid.

a) Once the economic growth achieved the level where for various reasons (economic, technological, and strategic) demand for capital goods (or of a certain type of capital goods) is no longer unlimited, various causes start to work, and decelerators appear to redress the balance such as

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increased foreign trade, foreign aid, etc. Another range of priorities is established.

b) Once the supply of consumer goods surpassed the low level of satisfaction of/need of the population both in quantity and in quality, and shoddy wares no longer satisfy the requirements of the population, the demand for consumer goods may feel the effects of limitations, and the demand elasticity for certain consumer goods falls very quickly.

(The newly published Soviet studies on the market research could possibly be a sign of such a development.)

c) Once the administrative incentives no longer prove to be effective for various reasons (economic, political, financial, etc.) the efficiency of the state power as the infallible planner decreases and other more effective economic incentives have to be applied.

d) Once the system of authoritarian centralized planning is outmatched by the extraplanned spontaneous growth at higher rate and lower costs, and once this planning system gets more and more split into a normative economy and an empirical one, the strength of spontaneous production forces becomes more evident. In this stage the spontaneous growth of socialist forms may increase more and more and develop self-sustained growth in an economy in which the use of force has become an obvious impediment to economic growth.

Thus new changes in planning policy of socialist countries may not be changes caused by economic development but by total economic growth.

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